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SUBJECT: AGOA UPDATE FOR MALAWI

REF: A. STATE 168472

[B](#). LILONGWE 821

[C](#). LILONGWE 696

[1](#)1. (U) SUMMARY: Malawi meets AGOA eligibility requirements for 2004. The GOM continues to liberalize its economy to a market-based model, improve rule of law, remove barriers to trade and investment, reduce poverty through economic policy, combat corruption, and protect worker rights. AGOA benefits have driven steady growth in Malawi's garment industry over the past year, one of the bright spots in a generally stagnant economy. Malawian leadership recognizes the importance of AGOA's contribution to growth in the manufacturing sector and is committed to maintaining AGOA eligibility. END SUMMARY.

[1](#)2. (U) MARKET ECONOMY: Malawi continues to move from the predominantly state-controlled economy of the Banda years to a market-based economy. The Privatization Commission was established shortly after political liberalization and has privatized 68 companies since 1996. Several large and profitable state enterprises were privatized in 2003, including the country's fabric manufacturer and a large grain milling operation. The state telecommunications company is in the final stages of a privatization deal, and other state-owned utilities are targeted for privatization in the near to medium term. President Mutharika has instituted a temporary moratorium on privatizations, with the stated objective of ensuring financial probity in pending deals. The GOM encourages domestic and foreign investment in most sectors of the economy, without restrictions on ownership or size of investment. The Competition and Fair Trading Act is aimed at strengthening the private sector by regulating and monitoring monopolies and protecting the interests of the consumer. Malawi's macroeconomic problems, mainly a result of fiscal indiscipline, have hampered liberalization to some extent, but we anticipate that stability on this front will bring further liberalization.

[1](#)3. (SBU) RULE OF LAW, POLITICAL PLURALISM, DUE PROCESS: Malawi's fledgling democracy held its third democratic elections in May 2004 and saw a peaceful first transition between democratically elected presidents. International observers noted several shortcomings in the electoral process, including inequitable access to the state-owned media, the ruling party's use of state resources to campaign, and poor planning and administration by the Electoral Commission. Without meaningful public discussion of the issues and without reasonable confidence in the Electoral Commission's handling of the process, the Malawi elections lacked some key elements of a fully democratic process. Since the election, however, there has been an active public debate about the Commission's performance, and the head of the Commission has since resigned. Although no political party won an outright majority in Parliament, the ruling party secured a working majority through alliance building. In addition to the eight political parties represented in the House (up from four), a record number of independents won seats.

[1](#)4. (U) BARRIERS TO U.S. TRADE AND INVESTMENT: Malawi is a member of the WTO and two regional trading blocs: SADC and COMESA. Through these organizations, the country has adopted a substantially free and fair trade regime. Real barriers to trade and investment are nearly all practical: transport costs, infrastructure gaps, and macroeconomic problems. The GOM participates actively in the National Action Group, a forum for government, private industry, and civil society to jointly guide policy for trade, investment, and private sector development.

[1](#)5. (U) POVERTY REDUCTION: The GOM has had an active poverty reduction strategy since at least 2000, as part of the Highly Indebted Poor Countries debt relief initiative. It is currently under consideration for assistance from both the World Bank and the International Monetary Fund, following suspension by both institutions in the last year of former president Muluzi's second term. Both institutions consider the new administration to be making great progress toward

fiscal responsibility. The IMF is expected to institute a Staff Monitored Program in September, and the Bank is expected to begin a structural adjustment credit in the same month. The GOM works closely with these international financial institutions, and with donor states, in setting the direction of Malawi's spending on pro-poor expenditures, which are currently at 6.5 percent of GDP. GOM policies place special emphasis on education, health, agriculture, and private sector development.

16. (SBU) COMBATTING CORRUPTION: Malawi's new president has made fiscal responsibility, good governance, and anti-corruption efforts his top priorities. Funding for the generally effective Anti Corruption Bureau has been doubled, and the Director of Public Prosecutions has been replaced, as has the Attorney General. Several high-level political figures have been named as targets for investigations and pending prosecutions. While it is still early for convictions, all signs are that the GOM is finally committed to rooting out corruption.

17. (U) WORKER RIGHTS: Malawi's labor laws are mostly in compliance with the ILO's core labor standards. A chronic lack of resources continues to hamper enforcement, however. The Constitution and employment laws comply with the Minimum Age Convention (ILO 138), and the Worst Forms of Labor Convention (ILO 182). Bound by limited resources, the GOM has yet to realize its plans for a public education program on child labor, and focuses on the underlying conditions for child labor, including rural poverty and the impact of HIV/AIDS on families and the labor force.

18. (SBU) Embassy considers that despite periodic setbacks, Malawi is making progress in its AGOA eligibility measures. The 2004 elections may represent a step forward in many areas, particularly in achieving macroeconomic stability and reestablishing good governance. In view of this and of the substantial benefits of AGOA to date, we strongly recommend that Malawi remain eligible for AGOA.

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